



# **STIKINE ENERGY CORP.**

## **CONDENSED INTERIM FINANCIAL STATEMENTS**

**For the Nine Months Ended November 30, 2011**

**(Expressed in Canadian Funds)**

Prepared by Management Without Audit

## **UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS**

In accordance with National Instrument 51-102 released by the Canadian Securities Administrators, the Company discloses that its auditors have not reviewed the unaudited condensed interim financial statements for the period ended November 30, 2011.

# Stikine Energy Corp.

## Statements of Financial Position

Canadian Funds

Unaudited – Prepared by Management

	November 30, 2011	February 28, 2011
<b>ASSETS</b>		
<b>Current</b>		
Cash and cash equivalents	\$ 115,379	\$ 4,753,335
Receivables	186,454	91,781
Prepaid expenses	42,692	115,277
	<u>344,525</u>	<u>4,960,393</u>
<b>Exploration and Evaluation Assets</b> <i>Schedule, (Note 5)</i>	10,769,455	5,591,289
<b>Reclamation Bonds</b> <i>(Note 8)</i>	21,000	16,000
<b>Equipment</b> <i>(Note 6)</i>	139,952	23,737
	<u>\$ 11,274,932</u>	<u>\$ 10,591,419</u>
<b>LIABILITIES</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	\$ 1,363,779	\$ 420,716
Due to related parties <i>(Note 9e)</i>	51,258	50,435
	<u>1,415,037</u>	<u>471,151</u>
<b>SHAREHOLDERS' EQUITY</b>		
<b>Share Capital</b> <i>(Note 7a)</i>	15,616,296	15,601,305
<b>Share Based Payment Reserve</b> <i>(Note 7d)</i>	3,964,413	3,969,404
<b>Deficit</b>	(9,720,814)	(9,450,441)
	<u>9,859,895</u>	<u>10,120,268</u>
	<u>\$ 11,274,932</u>	<u>\$ 10,591,419</u>

ON BEHALF OF THE BOARD:

"Scott Broughton", Scott E. Broughton, Director

"David Skerlec", David J. Skerlec, Director

- See Accompanying Notes -

# Stikine Energy Corp.

## Statements of Loss and Comprehensive Loss

Canadian Funds

Unaudited – Prepared by Management

	For the Three Months Ended		For the Nine Months Ended	
	November 30, 2011	November 30, 2010	November 30, 2011	November 30, 2010
<b>Expenses</b>				
Rent, Office and sundry	\$ 31,591	\$ 26,751	\$ 97,700	\$ 75,483
Consulting fees and wages	33,438	12,450	92,699	36,538
Advertising, promotion and shareholder relations	3,987	4,323	41,203	15,721
Audit, accounting and legal fees	13,961	14,860	33,090	62,177
Travel	4,658	3,067	13,723	12,203
Listing and filing fees	6,030	6,813	13,354	19,875
Amortization	2,111	248	7,104	744
Bank charges and interest	217	590	862	1,237
Share-based payments	-	-	-	120,629
<b>Loss before under-noted Resource costs written-off (recovery) - Note 4</b>	<b>95,993</b>	<b>69,102</b>	<b>299,735</b>	<b>344,607</b>
Interest Income	(4,692)	(1,651)	(25,885)	(2,033)
<b>Loss and Comprehensive Loss for the Period</b>	<b>91,301</b>	<b>67,451</b>	<b>270,373</b>	<b>343,774</b>
Deficit, beginning of period	9,629,513	8,764,256	9,450,441	8,487,933
<b>Deficit, End of Period</b>	<b>\$ 9,720,814</b>	<b>\$ 8,831,707</b>	<b>\$ 9,720,814</b>	<b>\$ 8,831,707</b>
<b>Loss per Share - Basic and Diluted</b>	<b>\$ 0.01</b>	<b>\$ 0.01</b>	<b>\$ 0.01</b>	<b>\$ 0.01</b>
<b>Weighted Average Number of Common Shares Outstanding</b>	<b>87,827,917</b>	<b>68,046,598</b>	<b>87,824,644</b>	<b>60,675,372</b>

- See Accompanying Notes -

# Stikine Energy Corp.

## Statements of Changes in Equity

Canadian Funds, except per share amounts

Unaudited – Prepared by Management

	Number of Shares	Amount \$	Share- Based Payment Reserve \$	Deficit \$	Total \$
<b>Balance as at March 1, 2010</b>	49,992,917	8,371,315	1,048,537	(8,504,652)	915,200
Issued for cash during the period:					
Private Placement	15,500,000	3,044,743	55,257	-	3,100,000
Exercise of warrants	2,000,000	300,000	-	-	300,000
Exercise of stock options	585,000	58,500	-	-	58,500
Transfer on exercise of warrants	-	55,005	(55,005)	-	-
Exercise of options – share based payments	-	39,539	(39,539)	-	-
Share-based payment expense	-	-	355,540	-	355,540
Share issuance costs	-	(366,466)	80,455	-	(286,011)
Loss and comprehensive loss for the period	-	-	-	(343,774)	(343,774)
<b>Balance as at November 30, 2010</b>	68,077,917	11,502,636	1,445,245	(8,848,426)	4,099,455
Issued for cash during the period:					
Private placements	19,550,000	4,703,407	1,161,593	-	5,865,000
Exercise of stock options	100,000	10,000	-	-	10,000
Exercise of options – share based payments	-	7,290	(7,290)	-	-
Share-based payment expense	-	-	1,248,189	-	1,248,189
Share issuance costs	-	(622,028)	121,667	-	(500,361)
Loss and comprehensive loss for the period	-	-	-	(602,015)	(602,015)
<b>Balance as at February 28, 2011</b>	87,727,917	15,601,305	3,969,404	(9,450,441)	10,120,268
Issued for cash during the period:					
Exercise of stock options	100,000	10,000	-	-	10,000
Exercise of options – share based payments	-	4,991	(4,991)	-	-
Loss and comprehensive loss for the period	-	-	-	(270,373)	(270,373)
<b>Balance as at November 30, 2011</b>	87,827,917	15,616,296	3,964,413	(9,720,814)	9,859,895

- See Accompanying Notes -

# Stikine Energy Corp.

## Statements of Cash Flows

Canadian Funds

Unaudited – Prepared by Management

	For the Three Months Ended		For the Nine Months Ended	
	November 30, 2011	November 30, 2010	November 30, 2011	November 30, 2010
<b>Operating Activities</b>				
Loss for the period	\$ (91,301)	\$ (67,451)	\$ (270,373)	\$ (343,774)
Items not affected by cash:				
Exploration and evaluation assets written-off		-	-	1,200
Share-based payments		-	-	120,629
Amortization	2,111	248	7,104	744
Changes in non-cash working capital:				
Receivables	105,137	150,704	(94,673)	(83,387)
Prepaid expenses	4,719	168,942	629	(450,718)
Accounts payable and accrued liabilities	8,616	(129,416)	290	(137,759)
Due to related parties	20,924	1,747	822	(411)
	<u>50,206</u>	<u>124,774</u>	<u>(356,201)</u>	<u>(893,476)</u>
<b>Investing Activities</b>				
Reclamation Bond		-	(5,000)	(3,500)
Resource property costs	(748,849)	(933,552)	(4,338,939)	(2,242,790)
BC METC proceeds	-	-	175,503	-
Equipment purchases	(1,199)	-	(123,319)	-
	<u>(750,048)</u>	<u>(933,552)</u>	<u>(4,291,755)</u>	<u>(2,246,290)</u>
<b>Financing Activities</b>				
Equities issued for cash	-	5,000	10,000	3,458,500
Equity issuance costs	-	-	-	(286,010)
	<u>-</u>	<u>5,000</u>	<u>10,000</u>	<u>3,172,490</u>
<b>Net Increase in Cash and cash equivalents</b>	<b>(699,842)</b>	<b>(803,778)</b>	<b>(4,637,956)</b>	<b>32,724</b>
<b>Cash and cash equivalents - Beginning of Period</b>	<b>815,221</b>	<b>851,931</b>	<b>4,753,335</b>	<b>15,429</b>
<b>Cash and cash equivalents - End of Period</b>	<b>\$ 115,379</b>	<b>\$ 48,153</b>	<b>\$ 115,379</b>	<b>\$ 48,153</b>
<b>Supplemental Schedule of non-cash Transactions</b>				
Stock-based compensation included in resource costs	\$ -	\$ -	\$ -	\$ 234,910
Exploration expenditures included in accounts payable	\$ 1,007,538	\$ (136,611)	\$ 1,342,773	\$ 366,086
Exploration expenditures included in prepaid expenses	\$ 285,076	\$ 168,787	\$ 71,956	\$ (440,413)

- See Accompanying Notes -

# Stikine Energy Corp.

## Schedule of Exploration and Evaluation Costs

Canadian Funds

Unaudited – Prepared by Management

	For the Three Months Ended		For the Nine Months Ended	
	November 30, 2011	November 30, 2010	November 30, 2011	November 30, 2010
<b>BC Frac Sand Projects, BC, Canada</b>				
<b>Acquisition Costs</b>				
Staking, land and claim costs	\$ 27,690	\$ 690	\$ 27,690	\$ 41,880
<b>Deferred Exploration Costs</b>				
Environmental	669,171	45,383	2,106,574	301,702
Aircraft Charter	109,277	126,140	812,099	1,147,911
Engineering	244,528	6,975	806,592	14,465
Pilot plant costs	316,244	314,515	546,165	314,515
Drilling	-	11,160	338,601	90,724
Community relations	24,762	-	182,529	-
Geological, Project Management	20,610	49,825	164,107	196,087
Transportation	-	-	144,705	-
Sundry	-	15,090	87,245	41,968
Testing and Assaying	24,870	10,535	71,098	82,246
Accommodation and meals	1	39,515	26,268	129,318
Road	500	-	23,108	-
Travel	2,531	14,663	9,136	52,389
Maps and reports	2,610	4,505	7,752	14,702
Share-based payments	-	-	-	234,910
Equipment	-	15,220	-	68,650
Archaeological	-	58,541	-	107,588
Freight	-	131,650	-	131,650
Communication	-	3,005	-	8,492
BC METC recovery	-	-	(175,503)	-
	<b>1,415,104</b>	<b>846,722</b>	<b>5,150,476</b>	<b>2,937,317</b>
<b>Total Costs for the Period</b>	<b>1,442,794</b>	<b>847,412</b>	<b>5,178,166</b>	<b>2,979,197</b>
Balance - Beginning of Period	<b>9,326,661</b>	<b>3,114,978</b>	<b>5,591,289</b>	<b>983,193</b>
<b>Balance - End of Period</b>	<b>\$ 10,769,455</b>	<b>\$ 3,962,390</b>	<b>\$ 10,769,455</b>	<b>\$ 3,962,390</b>

# Stikine Energy Corp.

## Notes to Financial Statements

Canadian Funds

Unaudited – Prepared by Management

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### 1. Nature of Operations

Stikine Energy Corp. (the “Company”) is a Vancouver-based resource exploration company listed on the TSX Venture Exchange under the symbol “SKY”.

The Company was incorporated on July 10, 2000 as Withit Capital Corp., changed its name to Stikine Gold Corporation on June 18, 2002, and changed its name to Stikine Energy Corp. on August 3, 2010.

The Company’s head office is located at Suite 490, 1122 Mainland Street, Vancouver British Columbia Canada, V6B 5L1.

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### 2. Basis of Preparation

These unaudited condensed interim financial statements, including comparatives have been prepared using accounting policies consistent with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and Interpretations issued by the International Financial Reporting Interpretations Committee (“IFRIC”) and in accordance with International Accounting Standard (“IAS”) 34, Interim Financial Reporting.

The preparation of these condensed interim financial statements resulted in changes to the accounting policies as compared with the most recent annual financial statements prepared under Canadian Generally Accepted Accounting Principles (“Canadian GAAP”). The accounting policies set out below have been applied consistently to all periods presented in these condensed interim financial statements. They have also been applied in preparing an opening IFRS balance sheet at March 1, 2010 for the purposes of the transition to IFRS, as required by IFRS 1, First Time Adoption of International Financial Reporting Standards (“IFRS 1”). The impact of the transition from Canadian GAAP to IFRS is explained in Note 11.

The policies applied in these unaudited condensed interim financial statements are based on IFRS issued and outstanding as of January 27, 2011, the date the Board of Directors approved these financial statements. The standards that will be effective or available for adoption in the financial statements for the year ending February 29, 2012 are subject to change and may be affected by additional interpretation. Accordingly, the accounting policies will be finalized when the first annual IFRS financial statements are prepared as at and for the year ending February 29, 2012.

The condensed interim financial statements have been prepared on a historical cost basis, except for financial instruments classified as financial instruments at fair value through profit or loss, which are stated at their fair value. In addition, these financial statements have been prepared using the accrual basis of accounting except for cash flow information.

The preparation of these condensed interim financial statements requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of expenses during the period. Actual results could differ from these estimates.

# Stikine Energy Corp.

## Notes to Financial Statements

Canadian Funds

Unaudited – Prepared by Management

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### 2. Basis of Preparation - *Continued*

These condensed interim financial statements include estimates which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the condensed interim financial statements, and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and future periods if the revision affects both current and future periods. These estimates are based on historical experience, current and future economic conditions and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Significant assumptions about the future and other sources of estimated uncertainty that management has made at the financial position reporting date, that could result in a material adjustment to the carrying amounts of assets and liabilities, in the event that actual results differ from assumptions made, relate to, but are not limited to the following:

- i) the carrying value and the recoverability of exploration and evaluation assets, which are included in the condensed interim statements of financial position;
- ii) the inputs used in the accounting for the deferred tax liability; and
- iii) the inputs used in the accounting for share-based payment expense included in profit or loss.

#### *Going concern of operations*

These condensed interim financial statements have been prepared assuming the Company will continue on a going-concern basis. The Company has incurred losses since its inception and the ability of the Company to continue as going-concern depends on its ability to raise adequate financing and to develop profitable operations.

Management is actively targeting sources of additional financing through alliances with financial, exploration and mining entities, and other business and financial transactions which would assure continuation of the Company's operations and exploration programs. In addition, management closely monitors commodity prices, individual equity movements, and the stock market to determine the appropriate course of action to be taken by the Company if favorable or adverse market conditions occur.

As the Company is in the exploration and evaluation stage, the Company has not identified a known body of commercial grade mineral on any of its properties. The ability of the Company to realize the costs it has incurred to date on these properties is dependent upon the Company identifying a commercial mineral body, to finance its development costs and to resolve any environmental, regulatory or other constraints which may hinder the successful development of the property. To date, the Company has not earned any revenues.

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### 3. Significant Accounting Policies

The accounting policies set out below are expected to be adopted for the year ending February 29, 2012 and have been applied consistently to all periods presented in these condensed interim financial, unless otherwise indicated.

#### a) **Cash and cash equivalents**

Cash and cash equivalents consist of cash on hand, deposits in banks and highly liquid investments with an original maturity of 90 days or less.

# Stikine Energy Corp.

## Notes to Financial Statements

Canadian Funds

Unaudited – Prepared by Management

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### 3. Significant Accounting Policies - *Continued*

#### b) Exploration and evaluation assets

Pre-exploration costs or property investigation costs are expensed in the period in which they are incurred. Once the legal right to explore a property has been acquired, all costs related to the acquisition, exploration and evaluation of mineral properties are capitalized by property. These direct expenditures include such costs as materials used, surveying costs, drilling costs, payments made to contractor and depreciation on plant and equipment during the exploration phase. Costs not directly attributable to exploration and evaluation activities, including general and administrative overhead costs, are expensed in the period in which they occur.

The Company may occasionally enter into farm-out arrangements, whereby the Company will transfer part of a mineral interest, as consideration, for an agreement by the farmee to meet certain exploration and evaluation expenditures which would have otherwise been undertaken by the Company. The Company does not record any expenditures made by the farmee on its behalf. Any cash consideration received from the agreement is credited against the costs previously capitalized to the mineral interest given up by the Company, with any excess cash accounted for as a gain on disposal.

When a project is deemed to no longer have commercially viable prospects to the Company, exploration and evaluation expenditures in respect of that project are deemed to be impaired. As a result, those exploration and evaluation expenditure costs, in excess of estimated recoveries, are written off to profit or loss.

Once the technical feasibility and commercial viability of extracting the mineral resource has been determined, the property is considered to be a mine under development and is classified as "mines under construction". Exploration and evaluation assets are also tested for impairment before the assets are transferred to development properties.

As the Company currently has no operational income, any incidental revenues earned in connection with exploration activities are applied as a reduction to capitalized exploration costs.

#### c) Reclamation deposits

Cash which is subject to contractual restrictions on use is classified separately as reclamation deposits.

#### d) Reclamation and Rehabilitation provisions

The Company is subject to various government laws and regulations relating to environmental disturbances caused by exploration and evaluation activities. The Company records the present value of the estimated costs of legal and constructive obligations required to restore the exploration sites in the period in which the obligation is incurred. The nature of rehabilitation activities includes restoration, reclamation and re-vegetation of the affected exploration sites.

The rehabilitation provision generally arises when the environmental disturbance is subject to government laws and regulations. When the liability is recognized, the present value of the estimated costs is capitalized by increasing the carrying amount of the related assets. Over time, the discounted liability is increased for the changes in present value based on current market discount rates and liability specific risks.

Additional environment disturbances or changes in rehabilitation costs will be recognized as additions to the corresponding assets and rehabilitation liability in the period in which they occur.

The Company has determined that it does not have any material rehabilitation obligations.

# Stikine Energy Corp.

## Notes to Financial Statements

Canadian Funds

Unaudited – Prepared by Management

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### 3. Significant Accounting Policies - *Continued*

#### e) Impairment of assets

At the end of each reporting period, the Company's assets are reviewed to determine whether there is any indication that those assets may be impaired. If such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any. The recoverable amount is the higher of fair value less costs to sell and value in use. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. In assessing value in use, the estimated future cash flows are discounted to their present value using pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in profit or loss for the period. For an asset that does not generate largely independent cash flows, the recoverable amount is determined for the cash generating unit to which the asset belongs.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but to an amount that does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

#### f) Share-based payments

The Company grants stock options to buy common shares of the Company to directors, officers, employees and consultants. An individual is classified as an employee when the individual is an employee for legal or tax purposes, or provides services similar to those performed by an employee.

The fair value of stock options is measured on the date of grant, using the Black-Scholes option pricing model and is recognized over the vesting period. Consideration paid for the shares on the exercise of stock options is credited to share capital.

In situations where equity instruments are issued to non-employees and some or all of the goods or services received by the entity as consideration cannot be specifically identified, they are measured at fair value of the share-based payment. Otherwise, share-based payments are measured at the fair value of goods and services and rendered.

#### g) Income taxes

Income tax expense comprises current and deferred tax. Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity. Current tax expense is the expected tax payable on taxable income for the year, using tax rates enacted or substantively enacted at period end, adjusted for amendments to tax payable with regards to previous years.

Deferred tax is recorded using the liability method, providing for temporary differences, between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Temporary differences are not provided for relating to goodwill not deductible for tax purposes, the initial recognition of assets and liabilities that affect neither accounting nor taxable loss, and differences relating to investments in subsidiaries to the extent that they will be probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

# Stikine Energy Corp.

## Notes to Financial Statements

Canadian Funds

Unaudited – Prepared by Management

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### 3. Significant Accounting Policies - *Continued*

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. To the extent that the Company does not consider it probable that a deferred tax asset will be recovered, it provides a valuation allowance against that excess.

#### h) **Equity Unit Offerings**

The Company has adopted a pro-rata basis method for the measurement of shares and warrants issued as units in financing arrangements. The pro-rata basis method requires that gross proceeds and related share issuance costs be allocated to the common shares and the warrants based on the relative fair value of each component.

The fair value of the common shares is based on the closing price on the closing date of the transaction and the fair value of the warrants is determined on the closing date of the transaction using the Black-Scholes option pricing model.

The fair value attributed to the warrants is recorded as share-based payment reserve. If the warrants are exercised, the value attributable to the warrants is transferred to share capital.

#### i) **Flow-through Shares**

The Company will from time to time, issue flow-through common shares to finance a significant portion of its exploration program. Pursuant to the terms of flow-through share agreements, these shares transfer the tax deductibility of qualifying resource expenditures to investors. On issuance, the Company bifurcates the flow-through share into i) a flow-through share premium, equal to the estimated premium, if any, investors pay for the flow-through feature, which is recognized as a liability, and ii) share capital. Upon expenses being incurred, the Company derecognizes the liability and the premium is recognized as other income.

#### j) **Earnings (loss) per share**

Basic earnings (loss) per share is computed by dividing net earnings (loss) available to common shareholders by the weighted average number of shares outstanding during the reported period. Diluted earnings (loss) per share is computed similar to basic earnings (loss) per share except that the weighted average shares outstanding are increased to include additional shares for the assumed exercise of stock options and warrants, if dilutive. The number of additional shares is calculated by assuming that outstanding stock options and warrants were exercised and that proceeds from such exercises were used to acquire common stock at the average market price during the reporting periods.

#### k) **Mineral Exploration Tax Credits (“METC”)**

The Company recognizes METC amounts and applies those amounts against deferred exploration costs when the Company's application for tax credits is approved by Canada Revenue Agency.

#### l) **Financial Assets**

All financial assets are initially recorded at fair value and designated upon inception into one of the following categories: *held-for-trading*, *available-for-sale*, or *loans and receivables*.

Cash and cash equivalents are classified as *held-for-trading* and recorded at fair value with changes in fair value recorded in net income.

# Stikine Energy Corp.

## Notes to Financial Statements

Canadian Funds

Unaudited – Prepared by Management

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### 3. Significant Accounting Policies - *Continued*

Receivables are classified as *loans and receivable*. Financial assets classified as loans and receivables and held-to-maturity are measured at amortized cost using the effective interest method less any allowance for impairment. The effective interest method is a method of calculating the amortized cost of a financial asset and of allocating interest income over the relevant period.

Reclamation bond amounts are classified as *available-for-sale*. Financial assets classified as available-for-sale are measured at fair value with unrealized gains and losses recognized in other comprehensive income (loss) except for losses in value that are considered other than temporary or a significant or prolonged decline in the fair value of that investment below its cost.

#### m) Financial Liabilities

Accounts payable, accrued liabilities, and due to related parties are classified as *other financial liabilities*. Other financial liabilities are initially measured at fair value, net of transaction costs, and are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis. The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expenses over the corresponding period. The effective interest rate is the rate that exactly discounts estimated future cash payments over the expected life of the financial liability, or where appropriate, a shorter period.

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### 4. New Accounting Pronouncements

In May 2011, the International Accounting Standards Board issued the following standards which have not yet been adopted by the Company: IFRS 9, Financial Instruments (IFRS 9), IFRS 10, Consolidated Financial Statements (IFRS 10), IFRS 11, Joint Arrangements (IFRS 11), IFRS 12, Disclosure of Interests in Other Entities (IFRS 12), IAS 27, Separate Financial Statements (IAS 27), IFRS 13, Fair Value Measurement (IFRS 13) and amended IAS 28, Investments in Associates and Joint Ventures (IAS 28). Each of the new standards is effective for annual periods beginning on or after January 1, 2013 with early adoption permitted. The Company has not yet begun the process of assessing the impact that the new and amended standards will have on its financial statements or whether to early adopt any of the new requirements. The following is a brief summary of the new standards:

#### *IFRS 9 – Financial Instruments*

IFRS 9 addresses classification and measurement of financial assets and replaces the multiple category and measurement models in IAS 39 for debt instruments with a new mixed measurement model having only two categories: amortized cost and fair value through profit and loss. IFRS 9 also replaces the models for measuring equity instruments and such instruments are either recognized at fair value through profit and loss or at fair value through other comprehensive income.

# Stikine Energy Corp.

## Notes to Financial Statements

Canadian Funds

Unaudited – Prepared by Management

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### 4. New Accounting Pronouncements - *Continued*

#### *IFRS 10 – Consolidation*

IFRS 10 requires an entity to consolidate an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 replaces SIC-12 Consolidation-Special Purpose Entities and parts of IAS 27 Consolidated and Separate Financial Statements.

#### *IFRS 11 - Joint Arrangements*

IFRS 11 requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting whereas for a joint operation the venturer will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. Under existing IFRS, entities have the choice to proportionately consolidate or equity account for interests in joint ventures. IFRS 11 supersedes IAS 31, Interests in Joint Ventures, and SIC-13, Jointly Controlled Entities-Nonmonetary Contributions by Venturers.

#### *IFRS 12 – Disclosure of Interests in Other Entities*

IFRS 12 establishes disclosure requirements for interests in other entities, such as joint arrangements, associates, special purpose vehicles, and off balance sheet vehicles. The standard carries forward existing disclosures and also introduces significant additional disclosure requirements that address the nature of, and risks associated with, an entity's interests in other entities.

#### *IFRS 13 - Fair Value Measurement*

IFRS 13 is a comprehensive standard for fair value measurement and disclosure requirements for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. It also establishes disclosures about fair value measurement. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and in many cases does not reflect a clear measurement basis or consistent disclosures.

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# Stikine Energy Corp.

## Notes to Financial Statements

Canadian Funds

Unaudited – Prepared by Management

### 5. Exploration and Evaluation Assets

Details are as follows:

	Acquisition	Deferred Exploration & Evaluation	Total November 30, 2011
British Columbia, Canada BC Frac Sand Projects	\$ 115,116	\$ 10,654,339	\$ 10,769,455
	\$ 115,116	\$ 10,654,339	\$ 10,769,455

  

	Acquisition	Deferred Exploration & Evaluation	Total February 28, 2011
British Columbia, Canada BC Frac Sand Projects	\$ 87,426	\$ 5,503,863	\$ 5,591,289
	\$ 87,426	\$ 5,503,863	\$ 5,591,289

During the year ended February 28, 2010, the Company acquired a 100-per-cent interest in several British Columbia silica mineral claims.

### 6. Equipment

Details are as follows:

	Cost	Accumulated Amortization	November 30, 2011 Net Book Value
Computer/Office/Field equipment	\$ 168,804	\$ 28,852	\$ 139,952

  

	Cost	Accumulated Amortization	February 28, 2011 Net Book Value
Computer/Office/Field equipment	\$ 45,485	\$ 21,748	\$ 23,737

### 7. Share Capital

- a) The authorized share capital of the Company consists of an unlimited number of common shares without par value. At November 30, 2011 there were 87,827,917 common shares outstanding.

100,000 stock options were exercised at \$0.10 during the nine months ended November 30, 2011 for proceeds of \$10,000.

On December 30, 2010, the Company closed a private placement raising gross proceeds \$5,865,000 through the issuance of 19,550,000 units at a price of \$0.30 per unit. Each unit consisted of one common share and one half of a share purchase warrant, each whole warrant entitling the holder to acquire one common share of the Company at an exercise price of \$0.40 until December 30, 2011, and at an exercise price of \$0.50 until December 30, 2012. In consideration for their services, the Company paid the agents a cash commission of \$410,550 and issued the agents non-transferable common share purchase warrants to acquire up to 1,368,500 common shares until December 30, 2012, at an exercise price of \$0.40. Other share issuance costs of \$65,124 were incurred in relation to this transaction.

The prorated fair value of the warrants issued was calculated to be \$1,161,593 on the grant date and is accounted for as a reduction to proceeds from the common shares with the offsetting entry to contributed surplus. The fair value of the agent warrants issued was calculated to be \$269,191 and is accounted for as share issuance costs with the offsetting entry to contributed surplus. A total of \$147,524 in issuance costs were attributable to the warrants which is accounted for as a reduction to share issuance costs with the offsetting entry to share-based payment reserve.

# Stikine Energy Corp.

## Notes to Financial Statements

Canadian Funds

Unaudited – Prepared by Management

### 7. Share Capital - Continued

On June 17, 2010, the Company completed a brokered private placement of flow-through common ("FT") shares and units at a price of \$0.20 for total gross proceeds of \$3,100,000. 13,775,000 FT shares and 1,725,000 units were issued, each unit consisting of one common share and one half of one common share purchase warrant. Each full warrant entitles the holder to acquire an additional common share until December 17, 2011 at price of \$0.25. In the event that the Company's common shares close at a price greater than \$0.50 cents for 20 consecutive trading days, the Company may accelerate the expiry date of the warrants by giving notice to the warrant holders that the warrants will expire on the 30th day after the date of notice. The agents of the financing received cash commissions of \$217,000 and 1,085,000 agent warrants, each exercisable until December 17, 2011 at a price of \$0.25. Other share issuance costs of \$94,180 were incurred in relation to this transaction.

The prorated fair value of the warrants issued was calculated to be \$55,257 on the grant date and is accounted for as a reduction to proceeds from the common shares with the offsetting entry to contributed surplus. The fair value of the agent warrants issued was calculated to be \$87,064 and is accounted for as share issuance costs with the offsetting entry to share based payment reserve. A total of \$7,090 in issuance costs were attributable to the warrants which is accounted for as a reduction to share issuance costs with the offsetting entry to share based payment reserve.

The total fair value of warrants and agent warrants issued during the year ended February 28, 2011 was estimated using the Black-Scholes Option Pricing Model with the following weighted average assumptions:

Average risk-free interest rate	1.70-1.76%
Expected dividend yield	Nil
Expected stock price volatility	62.9-95.1%
Average expected life	1-2 years

Flow-through securities are securities issued by a company that incurs certain resource expenditures and renounces them for tax purposes thereby allowing the expenditures to flow-through to the subscriber who purchased the securities. Subscribers may in turn claim the expenditure as a deduction on their personal or corporate tax returns. The \$2,755,000 raised by the Company through the sale of the FT shares was renounced for income tax purposes effective December 31, 2010.

#### b) Stock Options

The Company has established a share purchase option plan whereby the board of directors may, from time to time, grant options to directors, officers, employees or consultants. The maximum number of shares issuable under the stock option plan shall not exceed 10% of the issued and outstanding shares. Options granted must be exercised no later than five years from date of grant or such lesser period as determined by the board of directors. The exercise price of an option is not less than the closing price on the TSX Venture Exchange on the last trading day preceding the grant date. Options vest on the grant date unless determined otherwise by the board of directors.

At November 30, 2011 there were 8,510,000 options outstanding at a weighted average exercise price of \$0.34. A summary of the changes during the period is as follows:

# Stikine Energy Corp.

## Notes to Financial Statements

Canadian Funds

Unaudited – Prepared by Management

### 7. Share Capital - Continued

Number at February 28, 2011	Granted	Exercised	Expired or Cancelled	Number at November 30, 2011	Exercise Price Per Share	Expiry
500,000	-	-	-	<b>500,000</b>	\$0.30	Feb. 20, 2012
1,150,000	-	-	-	<b>1,150,000</b>	\$0.10	June 18, 2013
1,060,000	-	(100,000)	-	<b>960,000</b>	\$0.10	June 10, 2014
2,100,000	-	-	-	<b>2,100,000</b>	\$0.30	May 3, 2015
3,800,000	-	-	-	<b>3,800,000</b>	\$0.50	Jan. 17, 2016
8,610,000	-	(100,000)	-	<b>8,510,000</b>	\$0.34	

100,000 stock options were exercised at \$0.10 during the nine months ended November 30, 2011 for proceeds of \$10,000. The fair value of \$4,991 relating to the exercise of stock options has been transferred to share capital from share based payment reserve.

At February 28, 2011 there were 8,610,000 options outstanding at a weighted average exercise price of \$0.34. A summary of the changes during the year is as follows:

Number at February 28, 2010	Granted	Exercised	Expired or Cancelled	Number at February 28, 2011	Exercise Price Per Share	Expiry
490,000	-	-	(490,000)	-	\$0.55	March 4, 2010
625,000	-	-	(125,000)	<b>500,000</b>	\$0.30	Feb. 20, 2012
1,700,000	-	(550,000)	-	<b>1,150,000</b>	\$0.10	June 18, 2013
1,195,000	-	(135,000)	-	<b>1,060,000</b>	\$0.10	June 10, 2014
-	2,100,000	-	-	<b>2,100,000</b>	\$0.30	May 3, 2015
-	3,800,000	-	-	<b>3,800,000</b>	\$0.50	Jan. 17, 2016
4,010,000	5,900,000	(685,000)	(615,000)	<b>8,610,000</b>	\$0.34	

On January 17, 2011, the Company granted 3,800,000 incentive stock options exercisable at a price of \$0.50 per share for a period of five years. The total fair value of the options granted was calculated to be \$1,248,189 on the grant date. Of this amount, \$566,612 was expensed and \$681,577 was capitalized to exploration and evaluation assets. On May 3, 2010, the Company granted 2,100,000 incentive stock options exercisable at a price of \$0.30 per share for a period of five years. The total fair value of the options granted was calculated to be \$355,540 on the grant date. Of this amount, \$120,629 was expensed and \$234,911 was capitalized to exploration and evaluation assets. The offsetting entries are to share based payment reserve.

The fair value of stock options used to calculate the compensation expense during the period was estimated using the Black-Scholes Option Pricing Model with the following weighted average assumptions:

Average risk-free interest rate	2.33-2.69%
Expected dividend yield	Nil
Expected stock price volatility	89%
Average expected option life	4.0-4.2 years

# Stikine Energy Corp.

## Notes to Financial Statements

Canadian Funds

Unaudited – Prepared by Management

### 7. Share Capital – Continued

The weighted average exercise price of options granted during the year was \$0.43. Also during the year ended February 28, 2011, a total of 615,000 outstanding stock options were cancelled or expired unexercised at a weighted average exercise price of \$0.50. A total of 685,000 stock options were exercised at \$0.10 during the year for proceeds of \$68,500. The fair value of \$46,829 relating to the exercise of stock options has been transferred to share capital from share based payment reserve.

#### c) Warrants

A summary of the Company's warrants outstanding at November 30, 2011 is as follows (no changes during the nine month period ended November 30, 2011):

Number Outstanding February 28, 2011	Issued	Exercised	Number Outstanding November 30, 2011	Exercise Price	Expiry Date
1,085,000	-	-	1,085,000	\$0.25	December 17, 2011
862,500	-	-	862,500	\$0.25	<sup>(1)</sup> December 17, 2011
9,775,000	-	-	9,775,000	\$0.40	<sup>(2)</sup> December 30, 2012
1,368,500	-	-	1,368,500	\$0.40	December 30, 2012
<b>13,091,000</b>	-	-	<b>13,091,000</b>	<b>\$0.38</b>	

- 1) If the closing price of the Company's common shares is greater than \$0.50 for a period of 20 consecutive trading days, the Company may accelerate the expiry date of these warrants by giving notice to the warrant holders, and in such case the warrants will expire on the 30th day after the date on which such notice is given.
- 2) Any unexercised warrants outstanding after December 30, 2011 will be exercisable at a price of \$0.50 until December 30, 2012.

During the year ended February 28, 2011, 2,000,000 warrants were exercised for proceeds of \$300,000. The fair value of \$55,005 relating to these warrants has been transferred to share capital from contributed surplus. A summary of the Company's warrants outstanding at February 28, 2011 and the changes for the year are as follows:

Number Outstanding February 28, 2010	Issued	Exercised	Number Outstanding February 28, 2011	Exercise Price	Expiry Date
2,000,000	-	(2,000,000)	-	\$0.15	August 13, 2010
-	1,085,000	-	1,085,000	\$0.25	December 17, 2011
-	862,500	-	862,500	\$0.25	<sup>(1)</sup> December 17, 2011
-	9,775,000	-	9,775,000	\$0.40	<sup>(2)</sup> December 30, 2012
-	1,368,500	-	1,368,500	\$0.40	December 30, 2012
2,000,000	13,091,000	(2,000,000)	<b>13,091,000</b>	<b>\$0.38</b>	

- 1) If the closing price of the Company's common shares is greater than \$0.50 for a period of 20 consecutive trading days, the Company may accelerate the expiry date of these warrants by giving notice to the warrant holders, and in such case the warrants will expire on the 30th day after the date on which such notice is given.
- 2) Any unexercised warrants outstanding after December 30, 2011 will be exercisable at a price of \$0.50 until December 30, 2012.

# Stikine Energy Corp.

## Notes to Financial Statements

Canadian Funds

Unaudited – Prepared by Management

### 7. Share Capital - Continued

#### d) Share Based Payment Reserve

Details are as follows:

	November 30, 2011	February 28, 2011
Balance – Beginning of Period	\$ 3,969,404	\$ 1,048,537
Private placement proceeds allocated to warrants	-	1,216,850
Issuance costs attributed to warrants	-	(154,614)
Issuance costs for warrants exercised	-	481
Fair value of warrants exercised	-	(55,005)
Fair value of Agent's warrants issued	-	356,255
Fair value of options exercised	(4,991)	(46,829)
Fair value of stock-options issued	-	1,603,729
Balance – End of Period	\$ 3,964,413	\$ 3,969,404

### 8. Reclamation Bonds

At November 30, 2011, reclamation bonds totalling \$21,000 (February 28, 2011 - \$16,000) were held with the British Columbia Ministry of Energy, Mines and Petroleum Resources as summarized below:

	November 30, 2011	February 28, 2011
Grant Gold Project	\$ 4,000	\$ 4,000
BC Silica claims	17,000	12,000
<i>Total</i>	\$ 21,000	\$ 16,000

### 9. Related Party Transactions

Except as noted elsewhere in these financial statements, related party transactions are initially recorded at fair value and subsequently measured at amortized cost using the effective interest method as follows:

- During the nine months ended November 30, 2011, consulting fees of \$109,575 (2010 - \$44,000) and share based payments of Nil (2010 - \$42,326) were paid or accrued to the Company's President and Chief Executive Officer. Services provided include general corporate, exploration and acquisition strategy, planning and management work, contract negotiations, and investment presentations.
- During the nine months ended November 30, 2011, consulting fees of \$53,450 (2010 - \$17,850) and share based payments of Nil (2010 - \$42,326) were paid or accrued to the Company's Secretary and Chief Financial Officer. Services provided include corporate finance initiatives, fund raising, contract negotiations, accounting, office and general management.
- During the nine months ended November 30, 2011, consulting fees of Nil (2010 - \$3,000) and share based payments of Nil (2010 - \$46,559) were paid to current independent directors of the Company.
- During the nine months ended November 30, 2011, rent costs of \$36,437 (2010 - \$33,899) were paid or accrued to a company with directors of the Company in common.
- At November 30, 2011 current liabilities include \$51,258 (2010 - \$30,067) payable to related parties.

These transactions were incurred in the ordinary course of business, are non-interest bearing, and without specific repayment terms. The transactions are measured at the exchange amount, which is the fair value consideration established and agree to by the related parties.

# Stikine Energy Corp.

## Notes to Financial Statements

Canadian Funds

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### 10. Financial Instruments

#### a) Fair Values

There are three levels of fair value hierarchy that prioritize the inputs to valuation techniques used to measure fair value, with level 1 inputs having the highest priority. The levels and the valuation techniques used to value the Company's financial assets and liabilities are described below:

- Level 1 – Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.
- Level 2 – Quoted prices in markets that are not active, quoted prices for similar assets or liabilities in active markets, or inputs that are observable, either directly or indirectly, for substantially the full term of the asset or liability.
- Level 3 – Unobservable (supported by little or no market activity) prices.

The carrying amounts of financial instruments approximate fair value as of November 30, 2011 as shown below:

<b>Financial Assets</b>	<b>Fair Value Hierarchy Level</b>		<b>Carrying and Fair Values</b>
Cash and cash equivalents	2	\$	115,379
Reclamation bonds	2	\$	21,000
Accrued interest receivable	N/A	\$	6,770
<b>Financial Liabilities</b>			
Accounts payable and accrued liabilities	N/A	\$	1,363,779
Due to related parties	N/A	\$	51,258

The fair values of the Company's interest receivable, accounts payable and accrued liabilities and due to related parties are estimated to approximate their carrying values due to the immediate or short-term maturity of these financial instruments.

#### b) Capital Risk Management

The Company's primary objectives when managing capital are to safeguard the Company's ability to continue as a going concern, so that it can continue to provide returns for shareholders, and to have sufficient funds on hand for business opportunities as they arise. The Company considers the components of shareholders' equity as capital. The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets.

In order to maintain or adjust the capital structure, the Company may issue equity, sell assets, or return capital to shareholders as well as issue or repay debt. The Company is not subject to externally-imposed capital requirements. The Company invests its cash in short-term interest-bearing investments, having maturity dates of three months or less from the date of acquisition, that are readily convertible to known amounts of cash.

# Stikine Energy Corp.

## Notes to Financial Statements

Canadian Funds

Unaudited – Prepared by Management

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### 10. Financial Instruments - *Continued*

There were no changes to the Company's approach to capital management during the period ended November 30, 2011. As at November 30, 2011, the Company had no foreign currency hedges or commodity hedges in place, and consequently, hedge accounting is not used.

#### c) **Financial Risk Management**

The Company is exposed to potential loss from various risks including credit risk, interest rate risk, currency risk, liquidity risk, market risk and commodity price risk.

##### *i) Credit Risk*

Management has considered payment history and other factors and estimated that no allowances are required to allow for potential credit losses, as the risk of non-performance is remote. The Company maintains its cash and cash equivalents in Canadian Chartered Banks. The Company's maximum exposure to credit risk is the carrying value of its financial assets.

##### *ii) Foreign Exchange Risk*

The Company's operations are exclusively conducted in Canada and the operating results and the financial position of the Company are reported in Canadian dollars. The Company is not subject to foreign exchange risk at November 30, 2011.

##### *iii) Interest Rate Risk*

The Company is exposed to interest rate risk on its cash and cash equivalents. Generally, the Company's interest income will be reduced during sustained periods of lower interest rates as higher yielding cash equivalents and short-term investments mature and the proceeds are invested at lower interest rates. A 1% change in interest rates would have an insignificant impact on the Company's financial statements or operating results.

##### *iv) Liquidity Risk*

The Company is exposed to liquidity risk. The Company seeks to manage liquidity risk by maintaining sufficient cash and short-term investment balances for settlement of its obligations. Liquidity requirements are managed based on expected cash flow to ensure there is sufficient capital in order to meet short-term obligations. At November 30, 2011, the liquidity risk of the Company was considered high due to the overall volatility of commodity and financial markets across the globe.

##### *v) Pledged Financial Assets*

The Corporation has financial assets that are pledged for potential reclamation obligations that may arise. Reclamation deposits are maintained until the Company is able to demonstrate that it has satisfactorily reclaimed its various exploration properties.

##### *vi) Market and Commodity Price Risk*

The Company is exposed to market risk and commodity price risk. Declines in the market price of commodities can affect the Company's ability to raise capital to fund its ongoing exploration and development activities.

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# Stikine Energy Corp.

## Notes to Financial Statements

Canadian Funds

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### 11. First Time Adoption of IFRS

Under IFRS 1 – *First Time Adoption of International Financial Reporting Standards*, the Company is required to reconcile equity, comprehensive income (loss) and cash flows for prior periods. The changes to equity and comprehensive income (loss) outlined below have resulted in the reclassifications of certain amounts in the statements of cash flows. However, as there has been no impact on net cash flows, no reconciliation of the statements of cash flows has been provided.

#### a) Reconciliation of Equity

A reconciliation between Canadian GAAP and IFRS Equity as at November 30, 2010 and February 28, 2011 is provided below:

Note	November 30, 2010 \$	February 28, 2011 \$
<b>Equity under GAAP</b>	4,116,174	10,442,483
Future income tax recovery		
- stock based compensation (i)	(16,719)	(322,215)
<b>Total IFRS adjustments to equity</b>	(16,719)	(322,215)
<b>Equity under IFRS</b>	4,099,455	10,120,268

Note (i)

Under Canadian GAAP, the Company previously capitalized stock-based compensation specifically related to mineral exploration to its various properties including any related future income tax impact. Under IFRS, while the stock-based compensation may still be capitalized, the future income tax impact would not. As such, exploration and evaluation asset costs originally recorded under Canadian GAAP was reduced by \$16,719 for the year ended February 28, 2010 and a further \$305,496 for the year ended February 28, 2011. This had the effect of increasing the Company's deficit (reducing equity) by \$16,719 as at November 30, 2010 and a total of \$322,215 as at February 28, 2011.

#### b) Reconciliation of Comprehensive Loss

A reconciliation between Canadian GAAP and IFRS comprehensive income or loss for the three and nine month periods ended November 30, 2010 and the year ended February 28, 2011 is provided below:

Note	Three months ended November 30, 2010 \$	Nine months ended November 30, 2010 \$	Year ended February 28, 2011 \$
<b>Comprehensive Income (Loss) under GAAP</b>	(67,451)	(343,774)	48,457
Future income tax recovery			
- flow-through shares (i)	-	-	(688,750)
Future income tax recovery			
- stock based compensation (ii)	-	-	(305,496)
<b>Total IFRS adjustments to comprehensive loss</b>	-	-	(994,246)
<b>Comprehensive Income (Loss) under IFRS</b>	(67,451)	(343,774)	(945,789)

# Stikine Energy Corp.

## Notes to Financial Statements

Canadian Funds

Unaudited – Prepared by Management

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### 11. First Time Adoption of IFRS - *Continued*

#### Note (i)

Under Canadian GAAP, the proceeds from the issuance of flow-through shares were recognized in share capital less the tax effects of the renunciation. Under IFRS, upon issuance of flow-through shares, the Company records the value of the flow-through shares issued, less an estimated premium that the investor paid for the flow-through feature to be recognized as a liability. Any estimated premium would be recorded as other income and the related deferred tax recognized as a tax provision.

The Company determined that no premium existed for the flow-through feature upon issuance of the flow-through shares on June 17, 2010; therefore a future income tax recovery of \$688,750 for the year-ended February 28, 2011 has been reversed in its entirety. This results in an increase to comprehensive loss and deficit of \$688,750 and a corresponding increase to share capital.

#### Note (ii)

Under Canadian GAAP, the Company previously recognized future income tax recoveries related to any capitalized stock-based compensation. Under IFRS, the temporary income tax impact would not be capitalized nor recorded as a tax recovery. As such, the deferred resource property costs originally recorded under Canadian GAAP was reduced by \$305,496 for the year ended February 28, 2010 and the corresponding future income tax recovery was reversed upon adopting IFRS.

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### 12. Segmented Information

The Company's principal activity is the exploration and development of mineral properties with these properties located in Canada.

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